



Auditor of Public Accounts
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Edelen Releases Audit of Pulaski County Fiscal Court

FRANKFORT, Ky. – State Auditor Adam Edelen has released the audit of the financial statements of the Pulaski County Fiscal Court for the fiscal year ended June 30, 2011. State law requires annual audits of county fiscal courts.

The audit found the financial statements of the discretely presented component units of Pulaski County are presented on an accrual basis of accounting. Pulaski County presents its financial statements on a modified cash basis of accounting. Both methods are acceptable, but this difference has been noted in the report.

As part of the audit process, the auditor must comment on non-compliance with laws, regulations, contracts and grants. The auditor must also comment on material weaknesses involving the internal control over financial operations and reporting.

The audit contains the following comments:

The Fiscal Court lacks adequate segregation of duties over receipts and bank reconciliations. The County Treasurer prepares and deposits the receipts, posts transactions into the accounting system, prepares reports for submission to the Department for Local Government, and performs the bank reconciliations for all county funds.

Lack of segregation of duties could result in misappropriation of assets and/or inaccurate financial reporting to external agencies such as the Department for Local Government, which could occur but go undetected. In addition, too much control by one individual without oversight can lead to irregularities that go undetected.

We recommend that the County divide the responsibilities for receipts and bank reconciliations among the Treasurer, the Finance Officer, and other employees of the County in order to achieve an appropriate level of segregation of duties.

County Judge/Executive Barty Bullock's response: We disagree with some of this comment. The Treasurer is directed by KRS 68.020, sections 1 and 4 to:

- A. The county treasurer shall receive and receipt for all money due the county from its collecting officers or from any other person whose duty it is to pay money into the county treasury.*
- B. He/She shall keep an accurate detailed account of all money received and disbursed by him/her for the county, and shall keep books of accounts of the financial transactions of the county in a manner required by the uniform system of accounting prescribed by the state local finance officer.*

If the County Treasurer gives up too much of the day to day recording and receipting of the money collected and disbursed, it is entirely possible to lose an accurate oversight of the flow of the county's overall financial picture. Receiving, recording, and balancing of the county's cash flow is the most important of the Treasurer's duties. All bank reconciliations and records of cash received and disbursed is presented to the Fiscal Court each month for their inspection and approval.

We agree that some of the agencies receiving and accounting for money on behalf of the county should have better controls in place. We have looked at those agencies and will make the necessary changes to better control the opportunity for fraud.

Auditors' reply: As stated in the comment above, too much control by one individual can result in misappropriation of assets and/or inaccurate financial reporting. If segregation of duties is not possible, the county should implement compensating controls or strong oversight over receipts and bank reconciliations.

Jail commissary internal controls are not adequately segregated. Our review of internal controls for jail commissary operations determined there is a lack of adequate segregation of duties because the former bookkeeper was primarily responsible for preparing deposits, preparing daily checkout sheets, preparing disbursement checks, posting to the receipts and disbursement ledgers, generating monthly reports, preparing monthly sales tax returns, preparing the monthly financial statements, and reconciling the bank account. Although other employees assisted the bookkeeper, there was no oversight or independent review of the bookkeeper's responsibilities.

A proper segregation of duties over bookkeeping duties, such as preparation of daily deposits, preparation of daily checkout sheets, check writing and signing, posting to the receipt and disbursement ledgers, generating monthly reports, preparing monthly sales tax returns, preparing the monthly financial statements, and reconciling the bank account is essential for preventing misappropriation of assets and/or inaccurate financial reporting. In addition, effective internal controls protect employees in the normal course of performing their daily responsibilities.

Budget restrictions may limit the number of employees the Jailer can hire. As a result, it may not be feasible to segregate bookkeeping duties to different individuals, or assign additional individuals to related tasks. In this situation, compensating controls should be designed and implemented to mitigate the risks associated with the internal control deficiencies described above.

We recommend the Jailer segregate related bookkeeping duties as described above. If, due to a limited number of staff, that is not feasible, strong oversight over these areas should occur and

involve an employee not currently performing any of those functions. Additionally, the Jailer could provide this oversight. If the Jailer chooses to implement compensating controls, the Jailer should document his oversight on the appropriate source document. The following are examples of compensating controls the Jailer could implement:

- The Jailer, or his designee, could periodically compare a daily deposit to the daily checkout sheet and receipts ledger.
- The Jailer, or his designee, could verify supporting documentation for disbursements agrees to check amounts, for disbursements such as jail fees collected, and sales tax returns.
- The Jailer, or his designee, could re-perform the bank reconciliation and compare reconciled balances to the monthly financial statements for agreement.

County Jailer Mike Harris' response: Deposits of all inmate monies are currently performed by 1 staff and another staff audits the deposit. Monthly bank reconciliations are performed by 1 staff and the jailer reviews. All checks require 2 signatures, 4 staff have permission to sign and compare.

The Somerset-Pulaski County Airport Board lacks adequate segregation of duties. As a result of our audit, we noted the Somerset-Pulaski County Airport Board (Airport Board) has a lack of segregation of duties over all accounting functions. The airport manager is responsible for preparing invoices, collecting receipts, preparing and depositing the receipts, and posting to the ledgers. The manager also prepares, signs, and posts all disbursements including payroll.

Because a lack of adequate segregation of duties existed for the above-mentioned accounting functions, the following occurred:

- One instance in which customer was not properly billed for hangar rental.
- Three instances in which customers were not billed for hangar rental.
- Sales tax reports were not properly prepared resulting in \$1,081 due to the Kentucky Department of Revenue.

Adequate segregation of duties would prevent the same person from having a significant role in the receiving and disbursing of funds, recording and reporting of those receipts and disbursements. Lack of segregation of duties increases the risk of misappropriation of assets, errors, and inaccurate financial reporting.

To protect the Airport Board against inaccurate financial reporting, we recommend separating the duties in preparing and depositing receipts, recording transactions, and preparing checks. If segregation of duties is not possible, due to a limited number of staff, strong oversight should be provided over the person responsible for these duties. The person providing this oversight should document his or her review by initialing source documents.

Airport Board Management's response: The Airport cannot segregate duties due to budget constraints; however we the Somerset Pulaski County Airport Board feel that there are adequate compensating controls over all accounting functions for Fiscal Year 2012 forward.

- a. In response to the one instance in which a customer was not properly billed for hangar rental, the difference in what was billed versus what should have been billed amounts to \$25.00. Subsequently the customer has been billed and has paid the correct amounts thus forward.*

- b. *In response to the three customers that were not billed for hanger rentals, the first lessee was not billed through accounts receivable, however the customer paid the scheduled payment which reflects in a zero balance. The second and third instance, results in the lessee requesting to be changed from quarterly billing to Semi-Annual Billing, therefore rents were billed and paid leaving a zero balance at the end of Fiscal Year 2011.*
- c. *In response to the Sales Tax not being properly reported, the previous Airport Manager inadvertently computed the monthly sales tax incorrectly; the adjusted sales tax has since been paid.*

Auditor's reply:

- a. *Without adequate controls, an error could go undetected and uncorrected. Good internal controls would help ensure customers are properly billed.*
- b. *Auditors requested documentation from the Airport Board to verify customers in question had paid and payments were in fact deposited. Auditors did not receive documentation to support the Airport Board's responses.*

The Somerset-Pulaski County Airport Board should properly account for daily deposits.

During our test of daily receipts, we noted the Airport Board does not properly account for deposits. Customer payments are applied to the applicable invoice in the accounting system or sales receipts are used to record monies received from customers. However, there is no supporting documentation maintained for deposits to determine what payments make up the total funds deposited. Furthermore, there is no documentation maintained to show the funds received are reconciled and deposited in-tact daily and that receipts are accounted for in numerical order. Good internal controls dictate, a cash receipts journal should be maintained indicating the date money is received, a description of the revenue source, the revenue account code, the total amount and the fund(s) to which the amount is distributed. We recommend the Airport Board implement procedures to properly account for daily deposits and account for all receipts in numerical order. After applying customer payments, the accounting system utilized by the Airport allows for the entity to record bank deposits using the deposit function. A deposit detail report can provide the information you would normally see in a cash receipts journal. Furthermore, we recommend the Airport Board maintain documentation of the reconciliation of the cash drawer to the accounting system and to the daily deposit.

Airport Board Management's response: Cash Receipts are recorded in the general ledger on the date in which it was received, with a description of the revenue source and coded to a general ledger account. There are copies of the deposit tickets maintained and copies within the bank statements and the deposits are reconciled monthly by our CPA. The Airport Board is maintaining reconciliations of the cash drawer daily.

Auditor's reply: Auditors requested a detail of deposits to determine if monies collected were deposited daily and all receipts were accounted for; however, we were not provided this documentation during the course of the audit. The controls mentioned above were not implemented until after the audit period and will be evaluated and tested during the next audit.

The Fiscal Court participated in a related party transaction. During fiscal year 2011, the County Coroner was partial owner of the Lake Cumberland Funeral Home in which the county paid a total of \$9,275 for indigent burials. Per the Pulaski County Code of Ethics, Part II., Standards of Conduct A, "no County government officer or employee or member of his family

shall have an interest in a business organization or engage in any business, transaction, or professional activity, which is in conflict with the proper discharge of his duties in public interest....” We recommend the County Judge/Executive consult with the local Board of Ethics for further review to determine whether a violation of the local Code of Ethics has occurred.

County Judge/Executive Barty Bullock’s response: The County Judge Executive will consult with the local Board of Ethics to determine how this situation should be handled in the future and to determine if a violation of the local Code of Ethics has occurred. He will also determine how it may be corrected if it is determined that a violation has in fact been committed.

The Somerset-Pulaski County Airport Board should require the depository institution to pledge or provide sufficient collateral and enter into a written agreement to protect deposits. On June 2, 2011, \$85,312 of the Airport Board’s deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$250,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The Airport Board should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the Airport Board enter into a written agreement with the depository institution to secure the Airport Board’s interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Airport Board Management response: The Airport Board is currently working with the Depository Institution to secure deposits.

The audit report can be found on the [auditor’s website](#).

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